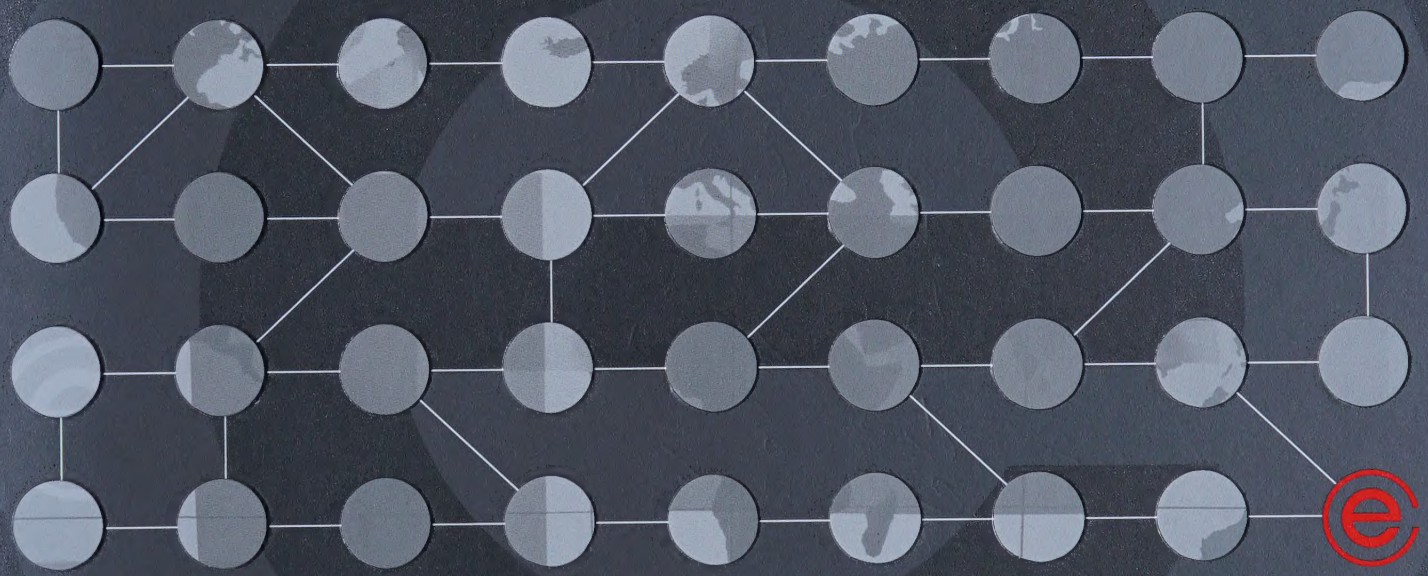
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ANNUAL REPORT 2003

Our E-Business Networks...



...A World of Opportunities

CONSOLIDATED FINANCIAL STATEMENTS

MEDIAGRIF
INTERACTIVE TECHNOLOGIES

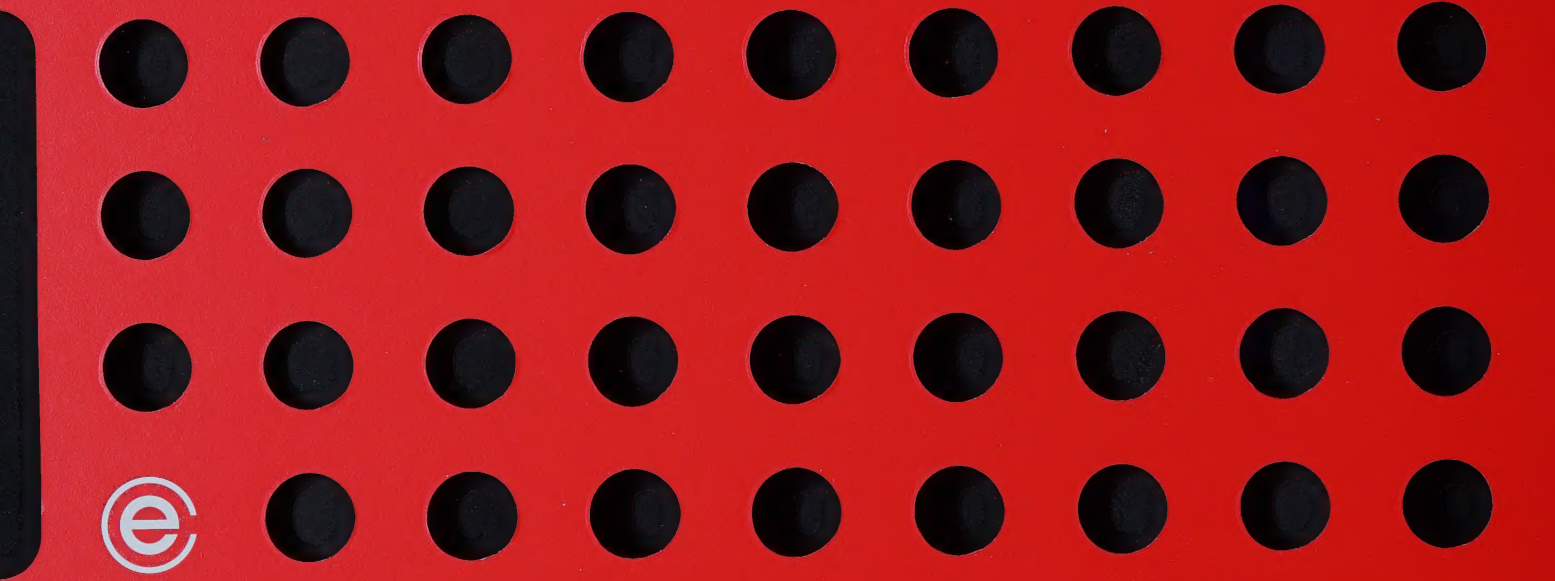


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Mediagrif is a World-Leading Operator of e-Business Networks

Since its inception in 1996, Mediagrif has been a pioneer operator of e-business networks and a provider of complete e-business solutions, including product information management and sell-side network solutions. Mediagrif's e-business networks allow buyers and sellers within specific industries to source, purchase or sell products and to exchange information more efficiently using the Internet.

Mediagrif's e-business networks, accessible by companies in all sectors, are supported by multi-lingual customer service and sales teams, which provide superior service 24-hours / day, in more than 20 languages, in order to better serve its 7,500 customers located in over 60 countries. The company also owns and operates the MERX e-tendering service, the official distributor of tender documents for the federal government of Canada, which allows more than 23,000 Canadian businesses to access government contract opportunities.

Today, Mediagrif has 340 employees including 160 developers and Java specialists, representing one of Canada's largest e-commerce development teams.

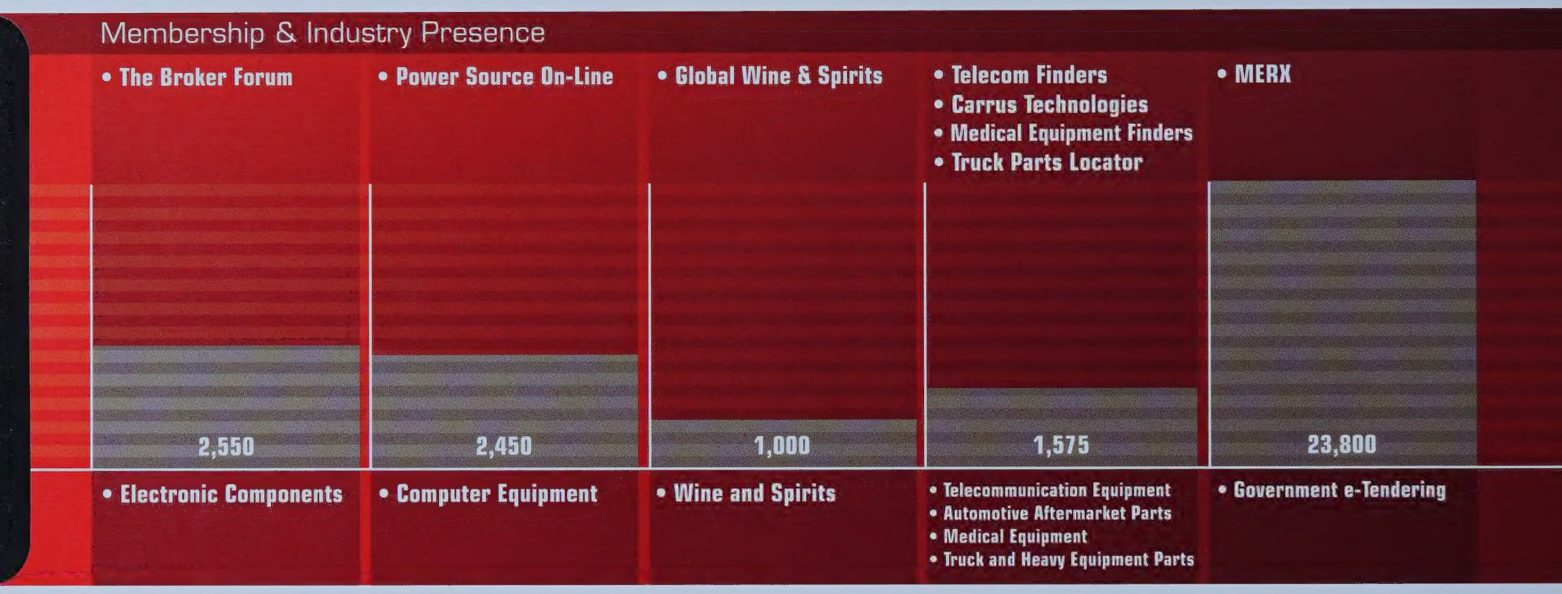
The company is based in the Greater Montréal area and has other offices in Canada and the United States. Mediagrif is publicly traded on the Toronto Stock Exchange (TSX: MDF).

COMPANY OVERVIEW

Mediagrif's activities are carried out through two segments: e-Business Networks and Software and Services. Revenues consist of subscription and usage fees, paid by network members, and license, integration, maintenance and hosting services fees, as well as gains on transfer of software resulting from software sales.

ESTABLISHED NETWORKS	THE BROKER FORUM · POWERSOURCE ONLINE.COM · MERX · TELECOM Finders
EMERGING NETWORKS	Global Wine & Spirits · CARRUS TECHNOLOGIES · TRUCKPARTSLOCATOR DRIVING THE PARTS MARKET · MedicalEquipment FINDERS
SOFTWARE AND SERVICES	MEDIAGRIF INTERACTIVE TECHNOLOGIES · flowsystems

Membership & Industry Presence



Geographical Distribution

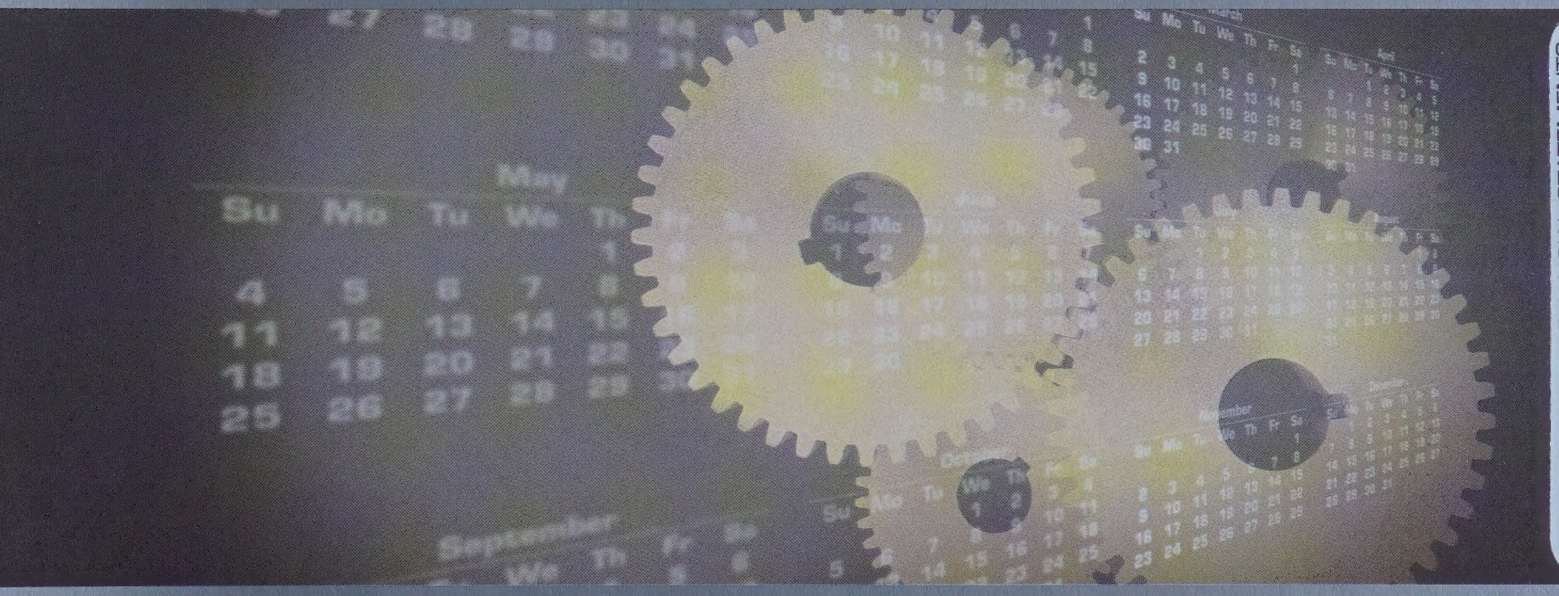
North America: 28,275 Europe: 1,890 Asia: 880



R.O.W: 320

2003 IN REVIEW

Corporate Hightlights	Impact and Benefits
May Company restructures CE2B Joint Venture.	Restructuring of European holding company allows transfer of US$5.0 million in cash from joint venture to Mediagrif to support corporate development objectives.
July Carrus Technologies (formerly Net3F) acquires DISC.	Acquisition contributes to Carrus' strategic positioning in the automotive aftermarket industry by establishing alliance with Uni-Select, Canada's second largest distributor of automotive parts and heavy-duty replacement parts.
August Sale of investment in VCE Virtual Chip Exchange Inc.	Divestment of 25% interest generates cash proceeds of $4.3 million, representing a pre-tax capital gain of $1.8 million.



September Buyback of 5.1 million Mediagrif shares held by major shareholder.	Buyback of 22.2% of shares outstanding at a price of $3.15 represents great shareholder value. Price reflects all-time trading low and slight premium over the cash value per share of $2.84.
December Acquisition of MERX.	Mediagrif becomes the leading provider of government e-tendering solutions in Canada. As MERX is already a profitable entity, the acquisition has an immediate positive impact on Mediagrif's revenues and profitability.
B2B Vertical Markets purchases minority shareholders of Carrus (Net3f).	Acquisition of 36% minority interest of Carrus consolidates ownership by B2B Vertical Markets to 100% at an attractive price.

E-Business Networks & Division	Operational Highlights
CARRUS TECHNOLOGIES	• We completed the technological upgrade of Jobber Management System (JMS) and Shop Management System (SMS) software. Overall, 3,200 users within our installed base of 300 companies utilize Carrus' Jobber Management System and Shop Management System.
flowsystems	• Corporate Express Canada, a subsidiary of the world's largest B2B supplier of office and computer products and services, implemented Flow Systems' newly released version of its product information management solution. This will enable Corporate Express to centralize the management of its product content for both its print and electronic channels, allowing the distributor to deliver consistent product information across all its customer touch points.
Global Wine & Spirits	• The public e-business network www.globalwinespirits.com achieved a ten-fold growth in buy-side membership during the year, from 70 wine and spirits importers in April 2002, to 865 in April 2003. • Global Wine & Spirits' public and private e-business network solutions enable the Société des alcools du Québec (SAQ) to conclude more than $800 million worth of transactions a year. Using the Global Wine & Spirits technology, the SAQ became the first business specializing in the distribution of wine, beer and spirits to make 100% of its purchases on-line.
	• The company implemented an e-business integration process (EBI) for DIAGEO Canada, a subsidiary of the world's leading premium drinks business, allowing the company and all its subsidiaries to manage the supply chain process electronically.
MedicalEquipment FINDERS	• The Medical Equipment Finders e-business network servicing the medical industry was launched in September.

E-Business Networks & Division	Operational Highlights
MERX	• $12 billion worth of contracts were awarded through MERX in FY2003. • 1,500 open tenders from all levels of government where available on any given day. • 150 new business opportunities where posted on the network daily. • The membership base of the MERX service exceeded 23,000 Canadian businesses during FY2003. • Post year-end note: Public Works and Government Services awarded a competitive contract to Mediagrif to provide the next version of the Government Electronic Tendering Service through its MERX service. The five-year contract will take effect in June 2004 with the option to extend it for four additional one-year periods.
PowerSource Online.com	• Membership base increased by 18% while average revenue per customer increased by 10%, resulting in a 30% overall increase in revenue for the network. • Members, of which 75% use the network at least 3 times per week, generated over 1,200,000 part searches per month.
Telecom Finders	• The network increased its customer base by 10% and its revenues by 80% during the last fiscal year.
THE BROKER FORUM	• Membership base increased by 24%, fuelled by strong growth in Asia, which now represents approximately 30% of the total membership and is the fastest growing region in the industry. • Members generated over 3 million searches per month and 900,000 RFQ's per month on the network. 82% of members use the network at least 3 times per week, confirming the value that The Broker Forum brings to its customers.
TruckPartsLocator™ DRIVING THE PARTS MARKET	• We completed the integration of the acquisition and launched the new service in October 2002 based on our proprietary e-business platform. • During the last fiscal year, membership base exceeded 300 members.

Since its beginning in 1996, Mediagrif has consistently demonstrated its ability to streamline and add concrete value to its customers' business processes through its e-business networks and technologies. Creating value for businesses all over the world is the foundation of Mediagrif's business model and success. This year's financial results confirm the quality and strategic positioning of our products and services. At this time, being described by many as a challenging economic global market, we have generated growth and profitability for the 6th consecutive year.



CONVINCING RESULTS

- Revenues increased by 38% to $37.6 million
- Net earnings increased by 412% to $6.92 million

For fiscal year 2003, revenues increased by 38%, amounting to $37.6 million, as compared to $27.3 for the previous year. This increase was driven mainly by the strong internal growth from our e-business networks and by the contribution of recent acquisitions such as MERX, the government e-tendering service acquired in December. Net earnings increased by an outstanding 412%, amounting to $6.92 million in FY2003, up from $1.35 million. Earnings per share increased to $0.34, as compared to $0.06 in FY2002 and earnings from operations amounted to $7.0 million, an increase from $1.0 million in the previous year.

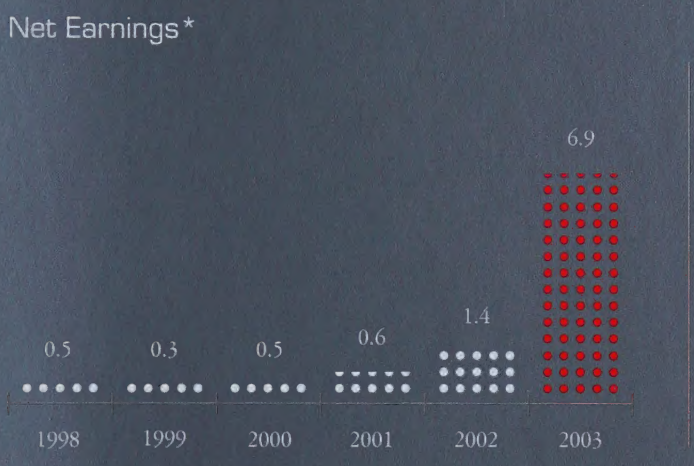
RISING TO THE CHALLENGE

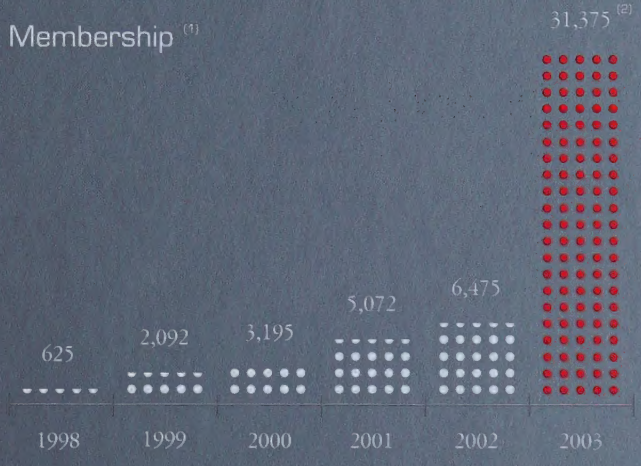
- 2 strategic acquisitions
- 1 new network launched
- Membership base increased by 385% to 31,350 companies

Throughout the fiscal year, energies and resources have been focused on attaining the 3 main goals we had set for ourselves:

1- Increasing revenues and gross margin generated by our established e-business networks.

Our established e-business networks are growing by expanding in new geographical markets and offering new value-added services to their customers. As a result, the membership base kept growing and the average revenue per member increased.
This year, The Broker Forum, Power Source On-Line and Telecom Finders increased their membership base by 21%, net of cancellations. While The Broker Forum achieved good results in Asia, Power Source On-Line started to penetrate some European markets and Telecom Finders extended its market share in the North American market. Their customers' usage patterns evolved, as customers used their services more frequently and to do more, thus confirming the value they bring to their customers' day-to-day activities. Good execution resulted in a 33% increase in total revenues.





* CA$ Millions
(1) In Thousands (2) Includes 23,800 MERX members

2- Continuing to develop our emerging networks.

The common denominator of our emerging networks is R&D. Major investments were made in order to gain a technological competitive advantage in these new markets. Global Wine & Spirits and Carrus Technologies have gained significant market share through their extensive and efficient technology capabilities.

On an operational basis, each network focused on developing their critical mass of users. As an example, Global Wine & Spirits was highly successful in recruiting wine and spirits importers from 50 different countries. Major retailers, catering and airline companies recognized Global Wine & Spirits' strategic positioning in order to get access to the largest on-line products offering and most efficient electronic procurement process. While they need to continue expanding their customer base, Global Wine & Spirits and Carrus Technologies have achieved their objectives and are well positioned to establish their revenue model and reach profitability. On their part, our newly launched Truck Parts Locator and Medical Equipment Finders are gradually establishing their brand in their own markets.

3- Accelerating our development by leveraging our balance sheet and infrastructure through acquisitions.

Pursuing our diversification strategy, we have entered into 2 new industries which offer high growth potential. Through the acquisition of MERX, Mediagrif established itself as the preeminent provider of e-tendering services in Canada. By servicing more

than 23,000 suppliers and 2,000 government buyers, we have significantly increased and diversified our revenue base. MERX will become an even more strategic acquisition as we intend to expand MERX's services internationally and in the private sector. Through Carrus Technologies, we have also acquired DISC, a leading provider of management software and IT services to the automotive aftermarket products. This acquisition allows Carrus Technologies to enter into a new segment of the industry, increasing its user base by more than 2,000 and establishing itself as an industry leader.

Since acquiring our first company in 1998, we have proven our ability to successfully select, acquire and integrate strategic acquisitions that contribute to achieving our goal of creating shareholder value.

CREATING ADDITIONAL SHAREHOLDER VALUE

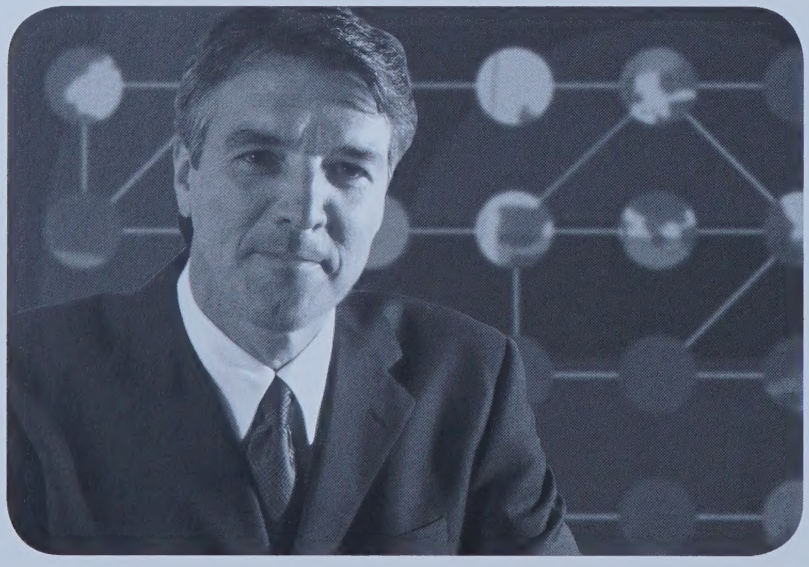
Benefiting from the difficult market conditions, we have concluded the buyback of 22.2% or 5.1 million shares from one of our major shareholders. The price of the buyback represented an all-time trading low and slight premium over the cash value per share. As a result, our shareholders will benefit from a higher EPS and an additional leverage on their investment.

STAYING FOCUSED

The exceptional performance achieved in FY2003 was possible through the dedication and commitment of our greatest assets: our employees and business partners.

Our future is bright and promising. Our established e-business networks will expand their market penetration, generating more revenues and profitability. Our emerging e-business networks will continue to develop and, in the short term, positively impact our balance sheet. Our strong financial position will be used to gain access into new industries in order to increase and diversify our revenue base.

We intend to continue focusing on implementing our business plan in the most professional, diligent and effective manner for the direct benefit of our customers, business partners and shareholders.



Denis Gadbois
Chairman of the Board and Chief Executive Officer

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Mediagrif Interactive Technologies Inc. ("Mediagrif" or the "Company") should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto appearing elsewhere in this annual report. This discussion and analysis compares performance for the fiscal years ended March 31, 2003 and 2002 and discusses risks and uncertainties that can be expected to impact on future operations.

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

Six-year Selected Financial Information [1]	2003	2002	2001	2000	1999	1998
	$	$	$	$	$	$
Consolidated statement of earnings						
Revenues	37,617	27,251	19,513	7,882	3,143	1,276
Gross margin	32,586	24,330	17,329	7,058	2,785	1,185
Operating expenses						
General and administrative	8,348	6,742	5,587	2,054	622	184
Sales and marketing	6,986	8,547	5,743	2,017	1,060	236
Research and development, net of tax credits	9,081	8,003	6,636	2,256	510	262
Amortization of intangible assets	1,154	-	-	-	-	-
	25,569	23,292	17,966	6,327	2,192	682
Earnings (loss) from operations	7,017	1,038	(637)	731	593	503
Net earnings	6,925	1,353	637	456	349	504
Basic and diluted earnings per share	0.34	0.06	0.03	0.03	0.03	0.05
Weighted average number of shares outstanding (basic)	20,208	23,127	19,983	14,406	13,318	10,439
Consolidated balance sheet data						
Cash and cash equivalents and short-term investments	52,275	61,559	69,150	7,006	2,456	1,160
Working capital	50,459	64,978	72,389	8,556	1,499	1,462
Long-term assets	16,211	16,071	11,892	5,902	684	125
Total assets	78,102	89,675	93,285	17,877	3,758	1,871
Total liabilities	13,229	15,403	20,282	5,364	1,960	422
Shareholders' equity	64,873	74,272	73,003	12,513	1,798	1,449
Consolidated statement of cash flow						
Cash flow from operating activities	12,556	501	(1,836)	(487)	1,008	683
Cash flow used for business acquisitions	(6,500)	(3,281)	-	(251)	(115)	-
Cash flow used for capital expenditures	(2,633)	(4,017)	(4,640)	(930)	(279)	(72)
Cash flow from financing activities	(17,028)	(495)	57,814	5,898	58	978

(1) Thousands of Canadian dollars, except per share amounts

GENERAL

Mediagrif Interactive Technologies Inc. is a world-leading operator of e-business networks and provider of complete e-business solutions, including product information management and sell-side network solutions. Mediagrif's e-business networks allow buyers and sellers within specific industries to source, purchase or sell products and to exchange information more efficiently using the Internet. The Company's activities are carried out through two reportable segments.

1) **E-Business Networks** represents the Company's business units such as The Broker Forum and Power Source On-Line that operate networks and offer e-commerce services to businesses in specific vertical industries. Revenues from this segment consist of subscription fees as well as usage fees paid by the members of the network.

2) **Software and Services** represents the Company's business units that provide e-commerce solutions to enterprises and to e-business networks. Solutions include product information management offered by our division Flow Systems, as well e-commerce sell-side network solutions. Revenues from this segment consist of licenses, integration services, maintenance and hosting services, as well as gains on transfer of software to joint venture arising from the sale of software to joint ventures.

We operate the following 8 e-business networks:

Name	Date Launched	Date Acquired	Industry
The Broker Forum	April 1996		Electronic Components
Power Source On-Line		August 1998	Computer Equipment
Telecom Finders	July 2000		Telecommunication Equipment
Global Wine & Spirits [1]	April 2001		Wine and Spirits
Carrus Technologies [1]		April 2001	Aftermarket Automotive Parts
Truck Parts Locator		March 2002	Truck and Heavy Equipment Parts
Medical Equipment Finders	September 2002		Medical Equipment
MERX		December 2002	Governement E-Tendering

1) Global Wine & Spirits and Carrus Technologies are held at 45% and 50% respectively.

OUR MISSION

Our mission is to be a world-leading operator of e-business networks. Our objectives are to support the largest number of members within our target segments and to provide our members with the best possible technology environment to conduct their e-business activities.

OUR STRATEGY

In order to reach our objectives, we have defined a strategy that includes the following three areas of focus:

1) *Membership growth*: Grow the membership base of our existing networks in order to provide our members with the largest number of business opportunities. The growth of our membership will be based on increased penetration in North America and geographic expansion in Europe and Asia.

2) *Value-added services*: Introduce new value-added services on our networks in order to enhance the user experience of our members and to deliver more value to the membership fee. We will continue to invest in research and development in order to support the introduction of these new services.

3) *Expansion into new industries*: Enter into new industries where we believe we have an opportunity to create one of the leading e-business networks by leveraging our operational and technological expertise. We will pursue this strategy by way of acquisition or by way of start-up.

OUR INDUCTORS OF PERFORMANCE

Our key inductors of performance are:

1) Number of members that are using our networks;
2) Average revenue per member;
3) Earnings from operations before interest and taxes (E.B.I.T.);
4) Earnings per share.

OUR SUCCESS FACTORS

In order to achieve our objectives, we depend on the following success factors:

1) *Management team*: We depend on our management team's experience and knowledge of the e-commerce industry to target the segments where our e-business networks will deliver the greatest value to the members;

2) *Development and development team*: We depend on our research and development and network services team to provide our members with the most efficient e-business infrastructure and to develop high-value e-commerce services for the benefit of our members;

3) *Operational team*: We depend on our operational team to support our members and ensure that they receive the maximum amount of value from our networks. We also rely on our operational team to recruit new members to our networks to provide the largest amount of liquidity in the networks.

ACQUISITIONS AND DISPOSITIONS

Fiscal 2003

1) On December 11, 2002, the Company purchased, from BMO Financial Group (BMO) certain assets of MERX, a provider of government e-tendering solutions in Canada, for a cash consideration of $6,297,077.

2) On December 5, 2002, B2B Vertical Markets (B2B), a 50% held joint venture of the Company, converted its two debentures into common shares giving it a total holding interest of 65% in its subsidiary, Carrus Technologies Inc. (formerly Net3F Inc.). On December 18, 2002, the Company completed the purchase of the remaining 35% non-controlling interest in Carrus Technologies Inc. by issuing 126,419 shares in exchange. Immediately thereafter, the Company resold its shares in Carrus Technologies Inc. to B2B for a cash consideration of $657,383.

3) On June 30, 2002, Carrus Technologies, a B2B subsidiary, purchased the net assets of DISC, a division of Uni-Select Inc., providing management software and IT services for $405,083 in cash.

4) On May 3, 2002, the Company purchased from ce Consumer Electronic AG ("Consumer") its share of Ce2B Québec Inc. (Ce2B), a joint venture between the Company and Consumer. Ce2B was subsequently wound up during the year. As part of this transaction, the Company has also granted to Consumer a software license to use the e-network technology for its own private e-network initiative. The reorganization of the ownership of Ce2B resulted in a gain on transfers of software of $1,172,250 and in a deferred revenue of $1,402,281 to be amortized over two years, which represents the period over which the services will be provided. Those transactions had no cash flow effects.

5) On September 3, 2002, the Company sold its 25.5% investment in VCE Virtual Chip Exchange (VCE) for cash proceeds of $4,272,504, resulting in a gain of $1,869,851 or $1,050,326 net of related income taxes of $819,525.

Fiscal 2002

1) On January 22, 2002, the Company acquired 100% of the outstanding shares of Flow Systems Corporation, a company specializing in catalogue content management and cross-media publishing, in exchange for cash consideration of US$900,000 ($1,445,619).

2) On March 25, 2002, the Company acquired the majority of the assets of LiveListings (now Truck Parts Locator), which operates an e-business network serving the truck and heavy equipment parts industry, in exchange for cash consideration of US$865,316 ($1,388,572).

3) On April 23, 2001, B2B acquired a 36% controlling interest in Carrus Technologies Inc., a company bringing business-to-business solutions to the automotive industry, in exchange for cash consideration of $1,000,000.

4) On December 17, 2001, B2B acquired a 51% joint control ownership interest in Viewtrak Technologies Inc., a company bringing business-to-business solutions to the beef industry, in exchange for cash consideration of $2,032,824.

IMPACT OF NEW ACCOUNTING POLICIES

In July 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1581, "Business Combinations", and Section 3062, "Goodwill and Other Intangible Assets". Section 1581 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. This section also broadens criteria for recording intangible assets separately from goodwill. Upon the adoption of Section 3062, recorded goodwill and intangible assets have been evaluated against those new criteria and resulted in amounts initially recorded as goodwill being separately identified and recognized apart from goodwill as intangible assets. Section 3062 requires the use of a non-amortization approach to account for purchased goodwill and indefinite-lived intangibles. Under this method, purchased goodwill and indefinite-lived intangibles are reviewed for impairment and written down and charged to earnings only in the periods in which the recorded value of goodwill and indefinite-lived intangibles exceeds their fair value. Goodwill was tested for impairment on April 1, 2002, at the adoption of the new standard. The Company concluded that no write-down for impairment was required for goodwill as at April 1, 2002. The use of a non-amortization approach for goodwill has reduced annual goodwill amortization by approximately $1.7 million.

On April 1, 2002, the Company adopted prospectively the recommendations of the CICA Handbook, "Stock-based Compensation and Other Stock-based Payments". This section defines, particularly, recognition, measurement and disclosure standards for stock-based compensation. These standards define a fair value-based method of accounting and encourage entities to adopt this method of accounting for its stock-based employee compensation plans. Under this method, compensation cost should be measured at the grant date based on the fair value of the award and should be recognized over the period of vesting of the awards. Alternatively, companies that do not apply such method are required to include in its financial statements, pro forma disclosures of net earnings and earnings per share as if the fair market value had been applied. The Company has decided to adopt the second option. The Company's stock option plan is described in detail in note 11 of the consolidated financial statements as well as required disclosures. The pro forma expense related to the 320,000 and 260,000 options granted respectively during the second and fourth quarter of Fiscal 2003 is estimated at $315,000 for the year ended March 31, 2003, using the assumptions disclosed in note 11. The impact on earnings per share amounted to $0.01 per common share. This amount does not include any expense related to options granted in prior periods, in accordance with the CICA's recommendations.

RECLASSIFICATION OF FINANCIAL STATEMENTS

The financial results for the year ended March 31, 2003, as well as for the previous years, have been reclassified to present the activities of VCE as discontinued operations. On September 3, 2002, the Company sold its 25.5% investment in VCE for cash proceeds of $4.3 million. VCE, whose activities were based on the purchase and resale of electronic components, had been presented as an independent segment of the Company over the past two years. Following this transaction, the Company no longer operates in this segment.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEARS ENDED MARCH 31,
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNT)

	2003	2002
	$	$
Revenues	37,617	27,251
Cost of revenues	5,031	2,921
Gross margin	32,586	24,330
Operating expenses		
General and administrative	8,348	6,742
Sales and marketing	6,986	8,547
Research and development, net of tax credits	9,081	8,003
Amortization of intangible assets	1,154	-
	25,569	23,292
Earnings from operations	7,017	1,038
Other income, net	327	1,836
Impairment loss on goodwill and other assets	(752)	-
Earnings from continuing operations before income taxes, non-controlling interest and amortization of goodwill	6,592	2,874
Provision for income taxes	711	29
Non-controlling interest	-	(254)
Earnings before amortization of goodwill and discontinued operations	5,881	3,099
Amortization of goodwill	-	1,739
Earnings from continuing operations	5,881	1,360
Discontinued operations, net of related income taxes	1,044	(7)
Net earnings for the year	6,925	1,353
Basic and diluted earnings per share	0.34	0.06

EARNINGS RECONCILIATION

The results for the year ended March 31, 2003 include a non-recurring $1.0 million after-tax gain on the sale of the Company's interest in VCE recorded in the second quarter of this year. Net earnings and earnings per share, adjusted to exclude this non-recurring item, are as follows:

	2003	2002
	$	$
Net earnings as reported	6,925	1,353
Gain on sale of VCE, after tax	(1,050)	-
Adjusted net earnings	5,875	1,353
Basic earnings per share, as reported	0.34	0.06
Gain on sale of VCE, after tax	(0.05)	0.00
Adjusted basic net earnings	0.29	0.06

Revenues

Revenues for the year reached $37.6 million, as compared to $27.3 million last year. Revenues from our e-business networks totaled $27.4 million, as compared to $15.8 million in the previous year. Revenue growth over the previous year was driven mainly by the contribution of the MERX acquisition, which generated $5.0 million in revenue during the last 110 days of fiscal 2003. Revenue growth was also driven by the increase in the membership base of our other e-business networks, whose revenue increased 34.9% over the previous year. Offsetting these increases was a decrease in our software and services group, whose revenues, net of inter-segment revenues, declined from $11.4 million to $10.2 million due to lower royalty revenues and lower deferred gains on software.

Gross margin

Gross margin as a percentage of revenue during the year amounted to 86.6% as compared to 89.3% in the previous year. The decrease in the gross margin is due to the impact of the acquisition of MERX, which carries, with 76%, lower gross margin than our other activities.

Operating expenses

Operating expenses for the year increased 10% to $25.6 million, from $23.3 million in the previous year. The increase was due entirely to the acquisitions of the past year, namely MERX, Truck Parts Locator, Flow Systems and DISC. Excluding the impact of these acquisitions, operating expenses decreased approximately 15%, mainly due to the reduction in sales and marketing costs following our October 2001 restructuring and due to overall lower general and administration expenses and research and development expenses. Operating expenses also increased due to the amortization of intangible assets following the adoption of new accounting policies where intangible assets have been recognized and identified apart from goodwill for the acquisitions initiated after June 30, 2001. The amount of $1.2 million for 2003 is mainly due to the acquisition of MERX, which intangible assets are amortized faster over the remaining estimated life of the exclusive contracts of 18 months.

Earnings from operations

Earnings from operations during the year amounted to $7.0 million, as compared to $1.0 million last year. The improvement in operating earnings over the previous year was related mainly to the internal growth in our membership base and the acquisition of MERX.

Other income

Other income during the year amounted to $0.3 million, as compared to $1.8 million in the previous year. The decrease in other income is the result of lower interest income, which declined from $2.1 million to $1.3 million this year, stemming from the lower cash balances and lower interest rates, as well as foreign exchange gains of $0.6 million in the previous year as compared to a foreign exchange loss during the year of $0.3 million.

Impairment loss on goodwill and other assets

During the fourth quarter of 2003, in view of the slow progress of our network in the agriculture industry, Viewtrak Technologies Inc., the Company recorded an impairment of goodwill for this company in the amount of $0.8 million. The impairment was based on an analysis of discounted future cash flows and reflected management's best estimates and hypotheses.

Provision for income taxes

Income tax expense during the year amounted to $0.7 million, representing a 10.8% effective tax rate. The effective tax rates for 2003 and 2002 were 10.8% and 1.0% respectively. The statutory tax rates for 2003 and 2002 were 35.3% and 36.6% respectively. The non-taxable gains on transfers of software were the main factor accounting for the difference between the statutory tax rates and the effective tax rates of the two fiscal years. In addition, the recognition of US subsidiary's tax losses from previous years in 2003 contributed to the difference between the statutory tax rate and the effective tax rate.

OPERATING SECTORS REVIEW

The Company operates in the business-to-business (B2B) e-commerce industry. During the fourth quarter of fiscal 2003, the Company has repositioned its activities into two reportable segments: E-Business Networks and Software & Services. The presentation of segmented information has been modified to reflect this repositioning. Prior years' figures have been reclassified. The accounting policies used within the segments are applied in the same manner as for the consolidated financial statements.

SEGMENTED INFORMATION

FOR THE YEARS ENDED MARCH 31,
(IN THOUSANDS OF CANADIAN DOLLARS)

	2003	2002
	$	$
Revenues		
E-Business Networks	27,441	15,845
Software and Services	16,525	16,229
Inter-segment		
Software and Services	(6,349)	(4,823)
	37,617	27,251
Earnings (loss) from operations		
E-Business Networks	9,712	1,473
Software and Services	1,477	3,442
Corporate	(3,940)	(4,072)
Eliminations	(232)	195
	7,017	1,038
Acquisition of fixed assets and other assets		
E-Business Networks	1,681	1,823
Software and Services	828	2,092
Corporate	124	310
	2,633	4,225
Segment assets		
E-Business Networks	20,193	14,050
Software and Services	12,799	18,552
Corporate	46,784	57,859
Assets from discontinued operations	-	2,917
Eliminations	(1,674)	(3,703)
	78,102	89,675

E-BUSINESS NETWORKS

Revenues amounted to $27.4 million, representing an increase of 73.2% over the level of the previous year. The increase in revenues is related to:
(1) Internal growth in our e-business networks of 35.4% to $21.4 million from $15.8 million in 2002;
(2) The acquisition of MERX in December 2002, which contributed $5.0 million in revenue during the year;
(3) The acquisition of Truck Parts Locator and DISC, which contributed $1 million of revenue during the year.

The membership base of our e-business networks continued to increase during the year, mainly fuelled by internal growth from Power Source On-Line and The Broker Forum whose membership base increased 20.5% over the previous year. At the end of the year, the membership base of our key e-business networks was the following: The Broker Forum, 2,550; Global Wine & Spirits, 1,000; MERX, 23,800; Power Source On-Line, 2,450; all other networks, 1,575.

Cost of revenues and operating expenses increased from $14.4 million to $17.7 million, mainly due to the acquisition of MERX. Excluding this acquisition, cost of revenues and operating expenses decreased by $0.4 million in 2003 due to headcount reductions in Power Source On-Line and lower marketing efforts in Global Wine & Spirits, which were offset by higher expenses in The Broker Forum and the acquisition of DISC and Truck Parts Locator in June 2002 and March 2002 respectively.

Earnings from operations generated from this segment amounted to $9.7 million for the year ended March 31, 2003, as compared to $1.5 million in the previous year. The increase is due to the higher revenues as explained above which more than offset the increase in cost of revenues and operating expenses. Operating margin therefore increased from 9.3% to 35.4%. The mature e-business networks such as The Broker Forum and Power Source On-Line performed well in 2003 recording a combined operating margin of 51.5% as compared to 26.8% in 2002. Moreover, the acquisition of MERX impacted favorably the segment's operating earnings.

SOFTWARE & SERVICES

Revenues from software and services, net of inter-company revenues, decreased from $11.4 million last year to $10.2 million this year. Deferred gains on transfer of software decreased to $3.2 million from $4.6 million last year due to lower gains from the Ce2B and CyberExchange (VCE) joint ventures, which were respectively restructured and sold during the year. Revenues from joint ventures and other customers amounted to $7.0 million, as compared to $6.8 million in the previous year. Revenues were positively impacted by the inclusion of Flow Systems for a full fiscal year. However, the Company generated lower licensing and customization revenues to joint ventures this year and did not generate any royalty fees from VCE in 2003 as compared to amounts of $0.9 million in the previous year.

Earnings from operations generated from this segment was $1.5 million for the year ended March 31, 2003 as compared to $3.4 million last year. The $1.9 million decrease in operating earnings is mainly due to the $1.2 million decrease in revenues, as well as to higher margin revenues generated in FY2002 due to a higher proportion of deferred software gains and royalties as a percentage of revenues than in FY2003. These factors contributed to generate a lower operating margin of 8.9% as compared to 21.2% last year.

CORPORATE

Corporate costs include the head office's general and administrative expenses as well as corporate communication expenses. During the year ended March 31, 2003 these costs remained relatively stable at $3.9 million, as compared to $4.1 million last year. Corporate costs tend to remain relatively stable due to their nature and do not vary with the level of revenues.

QUARTERLY PERFORMANCE

The following table highlights the Company's quarterly results for fiscal 2003 and 2002:

(In Thousands of Canadian dollars, except per share amount)

	2003				
	Q1	Q2	Q3	Q4	Total
	$	$	$	$	$
Revenues	8,888	7,821	8,873	12,035	37,617
Earnings from operations	2,021	1,188	1,598	2,210	7,017
Net earnings	1,688	2,676	1,420	1,141	6,925
Basic and diluted EPS	0.08	0.12	0.08	0.06	0.34

	2002				
	Q1	Q2	Q3	Q4	Total
	$	$	$	$	$
Revenues	6,526	6,151	6,739	7,835	27,251
Earnings from operations	(106)	(565)	528	1,181	1,038
Net earnings	24	(269)	705	893	1,353
Basic and diluted EPS	0.00	(0.01)	0.03	0.04	0.06

1) Q2 2003 includes a gain on disposition of discontinued operations amounted to $1.0 million;

2) Q4 2003 includes impairment on goodwill and other assets amounted to $0.8 million;

3) FY 2002 results include expenses related to amortization of goodwill amounted to $1.7 million or $0.07 per share for the entire year.

LIQUIDITY AND FINANCIAL RESOURCES

Since our inception, we have financed our operations and met our capital expenditure requirements primarily through cash flows from operating activities and the issuance of capital stock. Our policy has been to maintain a cash balance in order to finance new business opportunities. We intend to maintain this policy in the future and consequently intend to continue to hold cash and cash equivalents. As of March 31, 2003, our cash and cash equivalents and short-term investments stood at $52.3 million, a decrease from $61.6 million as of March 31, 2002.

For the year ended March 31, 2003, net cash provided by **operating activities** totaled $12.6 million compared to $0.5 million last year. This increase is mainly due to the higher profitability of the Company which, combined with non-cash items, amounted to $10.2 million during the year, as compared to $1.2 million in the previous year. Moreover, lower accounts receivable contributed to a decrease in the working capital of $2.9 million compared to $0.1 million in the previous year.

For the year ended March 31, 2003, net cash used by **investing activities** amounted to $9.1 million. This amount is comprised of $6.2 million used for business acquisitions including the purchase of non-controlling interest of Carrus, $2.6 million for the purchase of capital assets and $0.3 million for the purchase of short-term investments. For the year ended March 31, 2002, net cash used by investing activities amounted to $8.3 million. This amount is comprised of $3.3 million used for business acquisitions, $4.2 million used for capital expenditures and $0.8 million for the purchase of short-term investments. Capital expenditures include mainly software development work related to improvements on our e-business networks, as well as computer equipment and software licenses for our e-business infrastructure. The lower amount of capital expenditure during the year as compared to last year is due to unusually high purchase of software licenses last year.

Net cash used by **financing activities** amounted to $17.0 million for the year ended March 31, 2003, as a result of the purchase for cancellation of 5.1 million common shares in September 2002 for a cash consideration of $16.6 million and the reimbursement of debt. The Company believes that this use of cash will create long-term shareholder value while also being accretive in the short-term to our earnings per share. For the year ended March 31, 2002, net cash used by financing activities amounted to $0.5 million, exclusively due to the reimbursement of debt.

RISKS AND UNCERTAINTIES

The Company faces a number of risks and uncertainties:

General and Economic Factors

The Company's operating results may vary significantly based upon the impact of changes in global economic and political conditions, including, without limitation, the impact on its customers. The economic uncertainty resulting from military action in Iraq and the global war on terrorism may continue to negatively impact consumer as well as business confidence and, without limitation, cause consumers and businesses to slow spending on products and services. Any such slowdown in spending on products and services may cause customers to defer or reconsider purchasing the Company's products and services.

Loss of Significant Contracts

The Company's MERX division generates its revenues from its contractual arrangements with the Government of Canada and certain provinces. These agreements expire in May 2004. While the Corporation has and will respond to any tender published to operate government e-tendering services, there is no guarantee that the Corporation will be awarded any contracts to replace the existing ones. The Corporation's inability to secure any new contracts to replace existing ones would have a material adverse effect on the results of the Company's MERX division. The Corporation has undertaken other business development initiatives, such as international expansion and private e-tendering, but there is no guarantee that any such initiative will be successful or could offset the impact of the loss of certain contracts.

Adoption of E-Business

Our success depends on widespread use of the Internet as well as other electronic networks as a way to conduct business. Because e-business and its related activities, such as online transactions, are relatively new and evolving, it is difficult to predict the size of this market and its sustainable rate of growth. Businesses and customers have not adopted e-business and its inherent applications as quickly as originally expected.

Response to Industry's Rapid Pace of Change

We operate in markets that are experiencing constant technological change, evolving industry standards, changing customer needs, frequent new product and service introductions, and short product life cycles. Our success will depend in large part on how well we can anticipate and respond to changes in industry standards and introduce and upgrade new technologies, products and services and upgrade existing products and services. We may face additional financial risks as we develop new products, services and technologies, and update them to stay competitive. Newer technologies, for example, may quickly become obsolete or may need more capital than expected. Development could be delayed for reasons beyond our control. Furthermore, substantial investment is usually required before new technologies become commercially viable. There is no assurance that we will be successful in developing, implementing and marketing new technologies, products, services or enhancements within a reasonable time, or that there will be a market for them. New products or services that use new or evolving technologies could make our existing ones unmarketable, or cause their prices to fall.

Competition

The e-business market is intensely competitive and we have many competitors with substantial financial, marketing, personnel and technological resources. New competitors may also appear as new technologies, products and services are developed. Competition could affect our pricing strategies, and lower our revenues and net income. It could also affect our ability to retain existing customers and attract new ones.

Growth Management and Maintenance of Growth Rate

The Company's business has grown rapidly in recent years. The Company's recent expansion has resulted in growth in the number of employees including senior managers, the scope of its operating and financial systems and the geographic area of its operations and customers, resulting in increased responsibility for both existing and new management personnel. Accordingly, the Company's future operating results will depend on the ability of its officers and other key employees to continue to implement and improve its operational, customer support and financial control systems, to expand, train and manage its employee base and to achieve product scalability. There can be no assurance that the Company will be able to manage recent or any future expansion successfully and any inability to do so could have a material adverse effect on the Company's business, results of operations and financial condition.

Defects in Software or Failures in Processing of Transactions

Defects in our owned or licensed software products, delays in delivery, as well as failures or mistakes in our processing of electronic transactions could materially harm our business, including our customer relationships and operating results. Our operations are dependent upon our ability to protect our computer equipment and the information stored in our data centers against damage that may be caused by fire, power loss, telecommunications failures, unauthorized intrusion, computer viruses and disabling devices, and other similar events. There can be no assurance that a fire or other natural disaster, including national, regional and local telecommunications outages, would not result in a prolonged outage of our operations.

Protection of Intellectual Property

We depend on our ability to develop and maintain the proprietary aspects of our technology. We cannot be certain that we will be able to enforce our rights or prevent other parties from developing similar technology, duplicating our intellectual property or designing around our intellectual property and this could materially harm our business.

Acquisition

Our growth strategy includes making strategic internally funded acquisitions. There is no assurance that we will find suitable companies to acquire or that we will have enough resources to complete any acquisition. There could be difficulties with integrating the operations of acquired companies with our existing operations. In addition, the current state of capital markets has created a more challenging environment in which to realize acquisitions.

Foreign Exchange

Our revenues are affected by fluctuations in the exchange rate between the Canadian dollar and the US dollars. We generate approximately 60% of our revenues in US dollars while approximately 15% of our operating expenses and cost of revenues are in US dollars. As a result, any decrease in the value of the US dollar relative to the Canadian dollar reduces the amount of Canadian dollar revenues we realize on sales, without a corresponding decrease in expenses. Exchange rate fluctuations are beyond our control and the US dollar may depreciate against the Canadian dollar in the future, which would result in lower revenues and margins. In order to reduce the potential negative effect of a weakening US dollar, we may hedge the value of a portion of our future US dollar net cash inflows for periods of up to 1 year.

OUTLOOK

The Company expects continued revenue, earnings from operations and EPS growth over the next twelve months. The revenue growth will come from the contribution for a full twelve-month period of MERX and the increase in the membership base of our e-business networks. This increase in revenue will offset the impact of the appreciation of the Canadian dollar over the US dollar, which has a negative impact on the revenues of our e-business networks, as well as a decline in the revenues of our software and services group due to lower deferred gains on transfer of software. Cost of revenues and operating expenses are expected to remain in-line with the levels achieved in the fourth quarter on an annualized basis.

The company expects to continue to pursue acquisitions to take advantage of its strong balance sheet. Excluding the effect of possible acquisitions, the company expects its cash and short-term investments to continue to grow over the next twelve months as cash flow from operating activities will more than offset cash used for capital expenditures, which will be in-line with levels spent in FY2003.

Forward-looking Statements

This MD&A contains certain forward-looking statements with respect to the Company. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2003 AND 2002

MANAGEMENT'S REPORT
TO THE SHAREHOLDERS OF MEDIAGRIF INTERACTIVE TECHNOLOGIES INC. /
TECHNOLOGIES INTERACTIVES MEDIAGRIF INC.

Management is responsible for the accompanying consolidated financial statements and all other information in this report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts that reflect management's judgment and best estimates. Financial information contained elsewhere in this report is consistent with the consolidated financial statements.

Management has established systems of internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The internal control process includes management's communication to employees of policies that govern ethical business conduct. The Board of Directors carries out its responsibility for the consolidated financial statements through its Audit Committee, consisting solely of outside directors. The Audit Committee meets with management and independent auditors to review the consolidated financial statements and the internal controls as they relate to financial reporting. The Audit Committee reports its finding to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to shareholders.

PricewaterhouseCoopers LLP, appointed by the shareholders as the Company's independent auditors, conduct an examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

Denis Gadbois
Chairman of the Board and Chief Executive Officer

Alain Miquelon
Vice President, Corporate Development and
Chief Financial Officer

AUDITORS' REPORT
TO THE SHAREHOLDERS OF MEDIAGRIF INTERACTIVE TECHNOLOGIES INC./
TECHNOLOGIES INTERACTIVES MEDIAGRIF INC.

We have audited the consolidated balance sheets of **Mediagrif Interactive Technologies Inc./Technologies Interactives Mediagrif Inc.** as at March 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Montréal, Quebec, Canada
May 2, 2003

CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31,

ASSETS

	2003	2002
	$	$
Current assets		
Cash and cash equivalents	19,953,352	29,577,702
Short-term investments	32,321,335	31,981,087
Accounts receivable *(note 6)*	4,002,646	5,082,558
Tax credits receivable	4,875,311	3,904,048
Prepaid expenses	738,149	516,594
Current assets from discontinued operations *(note 13)*	-	2,542,739
	61,890,793	73,604,728
Capital assets *(note 7)*	6,900,383	7,124,551
Future income taxes *(note 16)*	93,170	2,261,238
Intangible assets *(note 8)*	4,653,710	-
Goodwill *(note 9)*	3,456,490	4,990,653
Other assets *(note 9)*	1,107,349	1,319,846
Long-term assets from discontinued operations *(note 13)*	-	374,358
	78,101,895	89,675,374

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	5,939,514	3,904,910
Income taxes	319,682	-
Deferred revenue	4,566,668	2,884,470
Current portion of long-term debt *(note 10)*	105,077	406,909
Future income taxes *(note 16)*	501,292	963,863
Current liabilities from discontinued operations *(note 13)*	-	467,057
	11,432,233	8,627,209
Long-term debt *(note 10)*	-	1,171,274
Deferred gains on transfers of software	1,796,775	5,604,818
	13,229,008	15,403,301

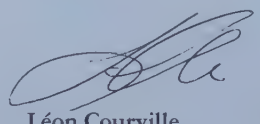
SHAREHOLDERS' EQUITY

Capital stock *(note 11)*	58,345,884	74,157,225
Contributed surplus *(note 11)*	290,619	-
Retained earnings (deficit)	6,446,769	(89,498)
Cumulative translation adjustment	(210,385)	204,346
	64,872,887	74,272,073
	78,101,895	89,675,374

Approved by the Board of Directors



Denis Gadbois
Chairman of the Board and Chief Executive Officer



Léon Courville
Lead Director of the Corporation

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)
FOR THE YEARS ENDED MARCH 31,

	2003	2002
	$	$
Deficit – Beginning of year	(89,498)	(1,442,534)
Net earnings for the year	6,925,594	1,353,036
Share buy-back expenses *(note 11)*	(389,327)	-
Retained earnings (deficit) – End of year	6,446,769	(89,498)

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED MARCH 31,

	2003	2002
	$	$
Revenues	37,616,904	27,250,721
Cost of revenues	5,031,379	2,920,850
Gross margin	32,585,525	24,329,871
Operating expenses		
General and administrative	8,347,535	6,741,967
Sales and marketing	6,986,210	8,547,289
Research and development, net of tax credits *(note 12)*	9,080,870	8,003,200
Amortization of intangible assets	1,154,034	-
	25,568,649	23,292,456
Earnings from operations	7,016,876	1,037,415
Other income, net *(note 18(b))*	327,774	1,836,110
Impairment loss on goodwill and other assets *(note 5)*	(752,169)	-
Earnings from continuing operations before income taxes, non-controlling interest and amortization of goodwill	6,592,481	2,873,525
Provision for income taxes *(note 16)*	711,305	29,191
Non-controlling interest	-	(254,353)
Earnings before amortization of goodwill and discontinued operations	5,881,176	3,098,687
Amortization of goodwill	-	1,738,646
Earnings from continuing operations	5,881,176	1,360,041
Discontinued operations, net of related income taxes *(note 13)*	1,044,418	(7,005)
Net earnings for the year	6,925,594	1,353,036
Basic and diluted net earnings per share from continuing operations	0.29	0.06
Basic and diluted net earnings per share *(note 11)*	0.34	0.06

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31,

	2003	2002
	$	$
Cash flows from		
Operating activities		
Earnings from continuing operations	5,881,176	1,360,041
Adjustments for		
Amortization of capital assets	3,867,297	2,744,057
Amortization of intangible assets	1,154,034	-
Amortization of goodwill *(note 9)*	-	1,738,646
Amortization of other assets	119,013	141,694
Amortization of gains on transfers of software	(3,242,507)	(4,588,579)
Future income taxes	1,705,497	90,663
Impairment loss on goodwill and other assets *(note 5)*	752,169	-
Non-controlling interest	-	(254,353)
Accretion of carrying value of a convertible debenture to face value	8,103	6,867
Change in non-cash working capital items *(note 18(a))*	2,310,931	(738,188)
Cash flows from operating activities	12,555,713	500,848
Investing activities		
Business acquisitions, net of cash and cash equivalents acquired *(note 4)*	(6,499,619)	(3,280,746)
Purchase of non-controlling interest of a joint venture's subsidiary in exchange for shares, net of cash and cash equivalents acquired *(note 4)*	328,692	-
Acquisition of capital assets *(note 19)*	(2,633,478)	(4,016,667)
Short-term investments	(340,248)	(780,704)
Other assets	93,484	(208,688)
Cash flows from investing activities	(9,051,169)	(8,286,805)
Financing activities		
Repayment of long-term debt and obligations under capital leases	(460,714)	(495,090)
Purchase of common shares for cancellation *(note 11)*	(16,599,267)	-
Issuance of common shares *(note 11)*	31,835	-
Cash flows from financing activities	(17,028,146)	(495,090)
Net change in cash and cash equivalents from continuing operations	(13,523,602)	(8,281,047)
Net increase (decrease) in cash and cash equivalents from discontinued operations	4,272,504	(7,005)
Effect of exchange rate changes on cash and cash equivalents	(373,252)	(84,242)
	3,899,252	(91,247)
Net decrease in cash and cash equivalents	(9,624,350)	(8,372,294)
Cash and cash equivalents – Beginning of year	29,577,702	37,949,996
Cash and cash equivalents – End of year	19,953,352	29,577,702
Short-term investments – End of year	32,321,335	31,981,087
Cash and cash equivalents and short-term investments – End of year	52,274,687	61,558,789
Supplementary information		
Interest paid	110,151	237,170
Income taxes paid	144,068	117,562
Capital assets acquired under capital leases	-	5,633

MEDIAGRIF

1. CONSTITUTION AND NATURE OF OPERATIONS

The Company, incorporated on February 16, 1996 under the Canada Business Corporations Act, is a developer, owner and operator of business-to-business e-commerce vertical networks. Business-to-business e-commerce vertical marketplaces are networks accessible through the Internet that aggregate groups of buyers and sellers from a specific industry to create larger, more efficient markets.

The Company operates its activities through its wholly owned subsidiaries, The Broker Forum Inc., TIM USA Inc., Power Source On-Line Inc., 4009118 Canada Inc. (operating under the name "LiveListings"), Flow Systems Corporation and 4023528 Canada Inc. (operating under the name "MERX", acquired in December 2002, note 4(b)). In addition, the Company has interests in two ventures in which it shares joint control with its co-venturers (the "joint ventures"). The Company's interest in and the operations of these joint ventures are summarized as follows:

a) A 45% ownership interest in Société d'investissement M.-S. S.E.C. (a limited partnership), which operates under the name "Global Wine & Spirits" ("GWS"). GWS was constituted on September 19, 2000 pursuant to a partnership agreement among the Company and Société des Alcools du Québec ("SAQ"), the limited partners, and 9095-4447 Quebec Inc., the general partner, which is jointly controlled by the Company and SAQ. GWS was constituted to carry out the project of developing an Internet business-to-business electronic virtual network offering an integrated solution for the purchase and sale of wine products.

 On December 19, 2000, J-F. Hillebrand Inc. ("J.F. Hillebrand") contributed $3,300,000 to GWS in exchange for a 10% ownership interest. As a result of this transaction, the company's ownership interest in GWS was diluted from 50% to 45%.

b) A 50% ownership interest in B2B Vertical Markets Inc. ("B2B"). B2B, which is jointly controlled by the Company and Royal Bank of Canada, was created on May 18, 2000 for the purpose of building industry-focused, interest-based trading hubs and to eventually develop and operate business-to-business e-commerce vertical networks. Since December 2002, B2B holds a 100% interest (March 31, 2002 – 36%) in Carrus Technologies Inc. (formerly Net3F Inc.), a company offering business-to-business e-commerce solutions to the automotive aftermarket industry (note 4). Since December 2001, B2B also holds a 51% interest in Viewtrak Technologies Inc., a company offering business-to-business e-commerce solutions to the beef industry.

2. SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

a) Business combinations and goodwill and other intangible assets

 In July 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1581, "Business Combinations", and Section 3062, "Goodwill and Other Intangible Assets". Section 1581 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. This section also broadens criteria for recording intangible assets separately from goodwill. Upon the adoption of Section 3062, recorded goodwill and intangible assets have been evaluated against those new criteria and resulted in amounts initially recorded as goodwill being separately identified and recognized apart from goodwill as intangible assets. Section 3062 requires the use of a non-amortization approach to account for purchased goodwill and indefinite-lived intangibles. Under this method, purchased goodwill and indefinite-lived intangibles are reviewed for impairment and written down and charged to earnings only in the periods in which the recorded value of goodwill and indefinite-lived intangibles exceeds their fair value. Goodwill was tested for impairment on April 1, 2002, at the adoption of the new standard. The Company concluded that no write-down for impairment was required for goodwill as at April 1, 2002. The supplementary information required by these new sections is presented in notes 4, 5 and 9.

b) Stock-based compensation plan and other stock-based payments

On April 1, 2002, the Company adopted prospectively the recommendations of Section 3870 of the CICA Handbook, "Stock-based Compensation and Other Stock-based Payments". This section defines, particularly, recognition, measurement and disclosure standards for stock-based compensation. These standards define a fair value based method of accounting and encourage entities to adopt this method of accounting for its stock-based employee compensation plans. Under this method, compensation cost should be measured at the grant date based on the fair value of the award and should be recognized over the period of vesting of the awards. Alternatively, companies that do not apply such method are required to include in their financial statements pro forma disclosures of net earnings and earnings per share as if the fair market value had been applied. The Company has decided to adopt the second option. The supplementary information required by this new section is presented in note 11.

Consolidation policies

The consolidated financial statements include the accounts of the Company and its subsidiaries. Interests in joint ventures are proportionately consolidated based on the Company's ownership interest.

Management estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management reviews its estimates, including those related to the amortization methods and useful lives, impairment of assets including goodwill and intangible assets and the provisions for income taxes. Actual results could differ from those estimates.

Cash and cash equivalents and short-term investments

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with original terms to maturity of three months or less at the time of acquisition.

Short-term investments are investments that are highly liquid, held to maturity and have terms greater than three months, but less than one year, at the time of acquisition. Short-term investments consist mainly of commercial paper and are carried at cost, which approximates their fair value.

Revenue recognition

Membership fees are recognized ratably over the period of the agreement. Development fees are recognized as development services are performed, while royalty fees are recognized according to the period of the related contract. Gains on transfers of software to joint ventures are deferred and amortized on a straight-line basis over the longer of three years and the development period of the joint ventures' e-business networks.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided for based on the estimated useful lives of the related assets using the following methods and periods or annual rates:

	Method	Period/rate
Office furniture	Declining balance	20%
Computer and other equipment	Straight-line	3 years
Software	Straight-line	3 years
Leasehold improvements	Straight-line	5 years

Intangible assets

Intangible assets, which consist of exclusive contracts, customer base, acquired technology and brand name, are recorded at cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets, which do not exceed five years. The Company evaluates the carrying value of intangible assets in each reporting period to determine if there has been an impairment in value that would result in an inability to recover the carrying amount. Such evaluation is based on estimated discounted future cash flows. When it is determined that the carrying value of an asset exceeds the recoverable amount, the asset is written down to the net recoverable amount with a charge to earnings in the period that such a determination is made.

Goodwill

Effective April 1, 2002, goodwill is not amortized but instead the Company assesses periodically whether a provision for impairment in the value of goodwill should be recorded to earnings. This is accomplished mainly by determining whether projected discounted future cash flows exceed the net book value of goodwill of the respective business units. Goodwill is tested for impairment annually on March 31, or when an event or circumstance occurs that could potentially result in a permanent decline in value.

Until the implementation of the new recommendation on April 1, 2002, as described in note 2(a), goodwill previously recorded was amortized on a straight-line basis over periods not exceeding three years. However, goodwill arising from business combinations initiated on or after July 1, 2001 is not amortized in accordance with the transitional provisions of the new recommendation of the CICA dealing with goodwill and other intangible assets.

Other assets

Deferred start-up and organizational costs are amortized on a straight-line basis over their estimated useful lives of three years commencing once commercial operations have begun. These costs, which relate to the launch of electronic networks and consist mainly of consulting fees, salaries and technology support costs, are deferred when it is probable that they will be recovered from future operations. When the expected recovery through future revenues less related costs is less than the unamortized balance of such costs, the excess is charged to earnings in the period.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantially enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Tax credits

Pursuant to a Quebec government program aimed at assisting companies operating in the information technology sector, the Company has received formal confirmation of its eligibility to receive supplementary tax credits ("new economy tax credits"). This program will expire, for the Company, in fiscal year 2011. Such tax credits, which are refundable, are generally earned at an annual rate of 40% of salaries paid to employees engaged in eligible activities, to a maximum annual refundable tax credit of $15,000 per employee.

Research and development and other tax credits are accounted for as a reduction of the related expenditures. The refundable portion of tax credits is recorded in the year in which the related expenditures are incurred. The non-refundable portion of tax credits is recorded in the year in which the related expenditures are incurred to the extent that realization of such credits is considered to be reasonably assured.

Foreign currency translation

Translation of accounts of subsidiaries and joint ventures

The Company follows the current rate method for the translation of self-sustaining subsidiaries and joint ventures' financial statements into Canadian dollars. Under this method, all assets and liabilities of the Company's subsidiaries and joint ventures are translated at year-end rates and revenues and expenses at the average rate for the year. The resulting gains or losses are shown under "Cumulative translation adjustment" in shareholders' equity.

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. All other assets and liabilities are translated at exchange rates prevailing at the transaction dates. Revenues and expenses are translated at monthly average rates during the period. The resulting gains or losses are included in the determination of net earnings for the year.

Research and development expenses

All expenses related to development activities which do not meet generally accepted criteria for deferral and research are expensed as incurred. Development expenses which meet generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit, which is typically of three years.

Earnings per share

Earnings per common share is determined using the weighted average number of common shares outstanding during the year.

Diluted earnings per common share is determined using the treasury stock method to evaluate the dilutive effect of stock options, convertible instruments and equivalents, when applicable. Under this method, instruments with a dilutive effect, basically when the average market price of a share for the period exceeds the exercise price, are considered to have been exercised at the beginning of the period and the proceeds received are considered to have been used to redeem common shares of the Company at the average market price for the period.

3. JOINT VENTURES

The Company's pro rata share of its joint ventures' operations included in the consolidated financial statements is summarized as follows:

	2003	2002
	$	$
Earnings (loss)		
Revenues	2,500,954	639,549
Cost of revenues	574,831	447,421
Operating expenses	1,693,436	3,732,699
Net loss	(833,490)	(3,185,102)
Cash flows		
Cash flows from operating activities	(2,388,604)	(2,101,979)
Cash flows from investing activities	(2,085,452)	(2,691,245)
Cash flows from financing activities	30,428	648,005
Balance sheet		
Current assets	3,356,835	13,927,840
Long-term assets	2,442,790	2,339,453
Current liabilities	1,651,350	2,897,858
Long-term liabilities	1,020,495	1,655,766

4. BUSINESS ACQUISITIONS

During fiscal 2003 and 2002, the Company and one of its joint ventures completed certain business acquisitions. These acquisitions were accounted for using the purchase method. All references to cash purchase prices for these acquisitions are inclusive of any related acquisition costs. The net earnings (loss) of each of these acquired businesses have been included in the consolidated statements of earnings of the Company from the respective dates of acquisition.

Fiscal 2003

a) On December 11, 2002, the Company purchased from BMO Financial Group (BMO) certain assets of MERX, a provider of government e-tendering solutions in Canada, for a cash consideration of $6,297,077. This transaction resulted in intangible assets of $4,666,192.

Identifiable intangible assets acquired represent exclusive contracts, which are amortized over the remaining estimated life of the contract of 18 months.

In the purchase agreement, the Company has committed to pay BMO royalties based on the achievement of certain revenue thresholds and membership thresholds during the period from the date of acquisition until May 31, 2004. In addition, the Company has committed to pay BMO a royalty if the contract with the Federal Government is extended beyond May 31, 2004. In this case, the royalty payment would be equal to 30% of revenues during the extension period for all revenues in excess of $27 million, calculated on a cumulative basis from November 1, 2002. As of March 31, 2003, there was no amount accrued related to this agreement.

b) On June 30, 2002, Carrus, a subsidiary of the Company's 50%-held joint venture, B2B, purchased the net assets of DISC, a division of Uni-Select, providing management software and IT services, for $405,083 in cash. The Company's proportionate share of intangible assets resulting from this transaction amounted to $78,766.

c) On May 3, 2002, the Company purchased from ce Consumer Electronic AG ("Consumer") its share of Ce2B Québec Inc. (Ce2B), a joint venture between the Company and Consumer. Ce2B was subsequently wound up during the year. As part of this transaction, the Company has also granted to Consumer a software licence to use the e-network technology for its own private e-network initiative. The reorganization of the ownership of Ce2B resulted in a gain on transfers of software of $1,172,250 and in deferred revenue of $1,402,281 to be amortized over two years, which represents the period over which the services will be provided. Those transactions had no net cash flow effect.

The 2003 allocation of the purchase price to the identifiable assets acquired and liabilities assumed is detailed as follows:

	MERX	DISC	Total
	$	$	$
Current assets	1,846,881	243,453	2,090,334
Capital assets	1,041,876	14,713	1,056,589
Identifiable intangible assets acquired	4,666,192	78,766	4,744,958
	7,554,949	336,932	7,891,881
Current liabilities	1,257,872	134,390	1,392,262
Net identifiable assets acquired	6,297,077	202,542	6,499,619
Purchase price	6,297,077	202,542	6,499,619
Less: Cash and cash equivalents acquired	-	-	-
Cash paid net of cash and cash equivalents acquired	6,297,077	202,542	6,499,619

Also, on December 5, 2002, B2B, a 50%-owned joint venture of the Company, converted its two debentures into common shares giving it a total holding interest of 65% in its subsidiary, Carrus Technologies Inc. ("Carrus") (formerly Net3F Inc.). On December 18, 2002, the Company completed the purchase of the remaining 35% non-controlling interest in Carrus by issuing 126,419 shares in exchange. Immediately thereafter, the Company resold its shares in Carrus to B2B for a cash consideration

of $657,383. This transaction resulted in a positive cash inflow for the Company amounting to $328,692 and in an intangible asset totalling $354,220.

Fiscal 2002

a) On January 22, 2002, the Company acquired 100% of the outstanding shares of Flow Systems Corporation, a company specializing in catalogue content management and cross-media publishing, in exchange for cash consideration of US$900,000 ($1,445,619), resulting in goodwill of $1,055,922.

b) On March 25, 2002, the Company acquired, through a newly created company, 4009118 Canada Inc. (operating under the name of "LiveListings"), the majority of the assets of a company which operates a business-to-business e-network serving the truck and heavy equipment parts industry, in exchange for cash consideration of US$865,316 ($1,388,572), resulting in goodwill of $1,307,030.

c) On April 23, 2001, B2B acquired a 36% controlling interest in Carrus in exchange for cash consideration of $1,000,000. The Company's proportionate share of goodwill resulting from this transaction amounted to $371,286. In January 2002, Carrus issued to B2B debentures convertible into Class B shares. On the date of acquisition, Carrus also issued to B2B rights to subscribe to additional shares of Carrus in exchange for $1,000,000.

d) On December 17, 2001, B2B acquired a 51% joint control ownership interest in Viewtrak Technologies Inc. in exchange for cash consideration of $2,032,824. The Company's proportionate share of goodwill resulting from this transaction amounted to $834,905. Furthermore, on the date of acquisition, B2B sold a software licence valued at $1,500,000 to the joint venture, resulting in a deferred gain on transfer of software of $367,500, which is amortized over three years.

The 2002 allocation of the purchase price to the identifiable assets acquired and liabilities assumed is detailed as follows:

	Flow Systems and LiveListings	Carrus and Viewtrak Technologies Inc.	Total
	$	$	$
Current assets	899,740	990,621	1,890,361
Capital assets	80,170	110,239	190,409
	979,910	1,100,860	2,080,770
Current liabilities	508,671	141,285	649,956
Long-term debt	-	27,500	27,500
Deferred gain on transfer of software	-	367,500	367,500
Noncontrolling interests	-	254,353	254,353
	508,671	790,638	1,299,309
Net identifiable assets acquired	471,239	310,222	781,461
Goodwill	2,362,952	1,206,191	3,569,143
Purchase price	2,834,191	1,516,413	4,350,604
Less: Cash and cash equivalents acquired	248,988	820,870	1,069,858
Cash paid net of cash and cash equivalents acquired	2,585,203	695,543	3,280,746

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5. IMPAIRMENT LOSS ON GOODWILL AND OTHER ASSETS

Due to significant uncertainties surrounding the future prospects of the Viewtrack Technologies Inc. joint venture, impairment losses have been recognized as at March 31, 2003 as follows:

	$
Impairment loss on goodwill	825,597
Impairment losses on other assets	110,322
Less: Deferred gain on software	(183,750)
	752,169

6. ACCOUNTS RECEIVABLE

Accounts receivable comprise the following:

	2003	2002
	$	$
Trade accounts receivable	3,884,304	4,977,497
Interest receivable	118,342	105,061
	4,002,646	5,082,558

7. CAPITAL ASSETS

a) Capital assets comprise the following:

			2003
	Cost	Accumulated amortization	Net
	$	$	$
Office furniture	771,195	316,448	454,747
Computer and other equipment	6,627,714	4,764,720	1,862,994
Software	6,441,635	2,513,982	3,927,653
Leasehold improvements	1,104,448	449,459	654,989
	14,944,992	8,044,609	6,900,383

			2002
	Cost	Accumulated amortization	Net
	$	$	$
Office furniture	646,448	222,923	423,525
Computer and other equipment	5,896,506	3,056,650	2,839,856
Software	4,199,802	978,623	3,221,179
Leasehold improvements	884,566	244,575	639,991
	11,627,322	4,502,771	7,124,551

b) Computer and other equipment include assets under capital lease with a cost and accumulated amortization of $1,104,312 and $889,397 respectively (2002 – $1,104,312 and $520,545).

c) Amortization of capital assets amounted to $3,867,297 for the year ended March 31, 2003 (2002 – $2,930,559).

8. INTANGIBLE ASSETS

Intangible assets comprise:

	2003	2002
	$	$
Exclusive contracts, net of accumulated amortization of $969,441 (2002 – nil)	3,696,751	-
Customer base, net of accumulated amortization of $85,208 (2002 – nil)	616,346	-
Existing technology, net of accumulated amortization of $68,724 (2002 – nil)	239,871	-
Brand name, net of accumulated amortization of $30,661 (2002 – nil)	100,742	-
	4,653,710	-

9. GOODWILL AND OTHER ASSETS

a) Goodwill

During the year, the Company completed its final review of the purchase price allocation with respect to business acquisitions completed in the prior year. This allocation is presented as part of the following table:

	$
Goodwill – As at April 1, 2002, net of accumulated amortization of $3,436,938	4,990,653
Allocated to intangible assets	
Customer base	(307,951)
Existing technology	(269,212)
Brand name	(131,403)
Goodwill – New balance before impairment	4,282,087
Impairment loss on goodwill *(note 5)*	(825,597)
Goodwill – As at March 31, 2003	3,456,490

In 2002, the net earnings for the year included an amortization of goodwill of $1,738,646. If the Company had not amortized its goodwill, the net earnings for the year and the basic and diluted net earnings per share would have been $3,091,682 and $0.13 respectively.

b) Other assets

	2003	2002
	$	$
Deferred start-up and organizational costs, net of accumulated amortization of $391,655 (2002 – $272,642)	179,872	298,885
Loans to employees	927,477	1,020,961
	1,107,349	1,319,846

Amortization of deferred start-up and organizational costs amounted to $119,013 (2002 – $141,694).

Loans to employees consist principally of loans to certain of the Company's executive officers to finance the acquisition of 1,270,518 common shares of the Company. These loans are non-interest bearing and must be repaid when shares are disposed of but no later than October 3, 2005.

10. LONG-TERM DEBT

a) Long-term debt includes the following:

	2003	2002
	$	$
Loan, bearing interest at prime rate plus 2.5%, repaid during the year	-	68,750
Obligations under capital leases *(note 10(b))*	91,327	468,291
Loan of a joint venture, bearing interest at prime rate plus 1.5% (5.9% as at March 31, 2003), repayable in monthly instalments of $2,500, guaranteed up to 80% by Garantie Québec and secured by all present and future capital assets of the joint venture, maturing in February 2004	13,750	28,750
Convertible debenture *(note 10(d))*	-	1,012,392
	105,077	1,578,183
Less: Current portion	105,077	406,909
	-	1,171,274

b) As at March 31, 2003, future minimum payments required with respect to obligations under capital leases are as follows:

	$
Year ending March 31, 2004	94,329
Less: Amount representing interest (weighted average interest rate of 7.50%)	3,002
	91,327
Less: Current portion	91,327
	-

c) Interest expense on long-term debt and obligations under capital leases amounted to $26,816 and $63,919 in 2003 and 2002 respectively.

d) The Company owns 50% of the equity in B2B Vertical Markets Inc. ("B2B"), a joint venture between the Company and Royal Bank of Canada ("RBC"). At its inception, RBC invested $10,000,000 in cash and the Company contributed a perpetual software licence to its e-business technology valued at $10,000,000. As consideration for these contributions, B2B issued different classes of shares to the co-venturers as well as a convertible debenture to RBC that matures on May 19, 2025 and is convertible at the holder's option, in whole or in part, into capital stock of B2B. The Company accounted for this transaction using proportionate consolidation and recorded a convertible debenture in the amount of $1,000,000, representing the net present value of the liability component of the convertible debenture, and a deferred gain on transfer of software of $4,000,000. As a co-venturer, the Company has at its disposal a mechanism that allows it to force the conversion of the debenture into common stock at any time in such a way that B2B would not have to pay the debenture and the related interest.

Following a review of its investment in B2B and based on B2B's existing cash position and financial commitments, the Company has estimated that in all probability the conversion mechanism will be exercised within the next three years and the period over which interest will be paid will be reduced accordingly. Consequently, the Company has reclassified $1,020,495 of the liability as a deferred gain on transfer of software, which will be amortized over the development period of the joint venture's e-business networks.

11. CAPITAL STOCK

a) Authorized, unlimited as to number
Common shares
Preferred shares, non-voting, retractable and redeemable

b) The following table summarizes the common stock activity for the past two years:

	2003		2002	
	Number	$	Number	$
Balance – Beginning of year	23,127,339	74,157,225	23,127,339	74,157,225
Purchase for cancellation [(i)]	(5,146,013)	(16,500,559)	-	-
Private placement [(ii)]	126,419	657,383	-	-
Exercise of stock options [(iii)]	8,100	31,835	-	-
Balance – End of year	18,115,845	58,345,884	23,127,339	74,157,225

i) On September 3, 2002, the Company purchased 5,146,013 of its own common shares held by ce Consumer Electronic AG for cancellation, at a price of $3.15 per share totalling $16,209,940, and the Company incurred $389,327 of costs in respect of this share buy-back, which represents $0.08 per share. Share capital has been reduced by the average cost per share before the buy-back of $3.21 per share totalling $16,500,559, a contributed surplus of $0.06 per share has been created totalling $290,619 and costs related to the share buy-back have been recorded against retained earnings.

ii) On December 5, 2002, the Company issued 126,419 of its shares to acquire the remaining 35% of the share capital of Carrus. Immediately thereafter, the Company resold its shares in Carrus to B2B for a cash consideration of $657,383 (note 4).

iii) During the year, 8,100 stock options were exercised to purchase 8,100 common shares for a total cash consideration of $31,835 or $3.93 per share.

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c) Employee stock purchase plan

The Company maintains an employee stock purchase plan for the benefit of all regular full-time employees who are Canadian citizens and who elect to participate. Under the terms of the plan, an employee may elect to contribute up to $2,000 annually, in multiples of 2% of the participant's annual income, through payroll deductions for the purchase of common shares of the Company. The Company has committed to match employee contributions to the plan. The purchase price of shares under the plan shall be equal to the market price of the Company's common shares on the purchase date.

d) Stock option plan

The Company maintains a stock option plan. Under that plan, the maximum number of shares which may be issued pursuant to the exercise of options is 3,375,351 and the max mum number of shares which may be issued in the aggregate to any single individual may not exceed 5% of the number of common shares issued and outstanding at the time of granting. The exercise price of options granted under the plan, as determ ned by the Board of Directors, shall not be less than the market price of the Company's common shares at the date of grant, the market price being the closing price per share on the Toronto Stock Exchange on the last trading day immediately preceding the date of grant. Options granted under the plan shall expire no later than five years after the date of grant. Options granted under the plan vest over a period of three years, with 10% becoming exercisable six months after the date of grant, with further tranches of 30% becoming exercisable after each of 12, 24 and 36 months following the date of grant.

The following summarizes stock option activity under this plan:

	2003		2002	
	Number of shares	Weighted average exercise price $	Number of shares	Weighted average exercise price $
Balance – Beginning of year	1,559,315	9.08	1,312,270	11.28
Granted	580,000	4.38	490,300	4.38
Exercised	(8,100)	3.93	-	-
Forfeited	(110,060)	10.89	(243,255)	11.50
Balance – End of year	2,021,155	7.65	1,559,315	9.08

The following table summarizes information about stock options outstanding at March 31, 2003:

	Options outstanding			Options exercisable	
Exercise price $	Number	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number	Weighted average exercise price $
3.55 - 6.00	1,028,000	4.14	4.35	211,320	4.20
7.20 - 8.25	200,000	2.99	7.24	138,440	7.25
12.00 -14.95	793,155	2.50	12.02	555,209	12.03
	2,021,155	3.38	7.65	904,969	9.47

e) On August 7, 2002 and on February 10, 2003, the Company granted 320,000 and 260,000 stock options respectively to employees at an exercise price of $3.55 and $5.40 respectively. The Company did not record any compensation expense. Had the stock-based compensation cost been accounted for based on the fair value of the options at the grant dates, the net earnings and earnings per share for the periods would have been reduced to the pro forma amounts indicated in the following table:

	As reported $	Pro forma $
Earnings from continuing operations	5,881,176	5,566,332
Basic and diluted earnings per share	0.29	0.28
Net earnings	6,925,594	6,610,750
Basic and diluted earnings per share	0.34	0.33

The fair value of share purchase options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	3.6% to 4.1%
Expected life of options	3.9 to 4 years
Volatility	52.5% to 53.8%
Dividend rate	0%

The fair value of stock options granted in August 2002 and in February 2003 was $1.58 and $2.43 respectively.

f) Weighted average number of shares outstanding

The following table outlines the weighted average number of shares used in the calculations of the basic and diluted net earnings per share:

	2003 $	2002 $
Weighted average number of shares outstanding		
Basic	20,208,450	23,127,339
Effect of dilutive stock options	168,457	26,801
Diluted	20,376,907	23,154,140

Options to purchase 1,377,155 shares (2002 – 1,107,815) at a weighted average price of $9.47 per share (2002 – $11.04) were outstanding during the year but were not included in the calculation of diluted earnings per share because the options' exercise price was greater than the average price of the shares.

12. RESEARCH AND DEVELOPMENT EXPENSES AND TAX CREDITS

	2003	2002
	$	$
Gross research and development expenses	12,769,270	11,845,882
Research and development tax credits	(1,383,234)	(1,178,733)
New economy tax credits	(2,305,166)	(2,663,949)
	9,080,870	8,003,200

13. DISCONTINUED OPERATIONS

On September 3, 2002, the Company sold its 25.5% investment in VCE Virtual Chip Exchange for cash proceeds of $4,272,504, resulting in a gain of $1,869,851 or $1,050,326 net of related income taxes of $819,525.

The results of discontinued operations are detailed as follows:

	2003	2002
	$	$
Revenues	1,876,069	8,800,681
Loss from operations	(6,811)	(2,558)
Other income, net	11,027	45,784
Earnings before income taxes	4,216	43,226
Provision for income taxes	10,124	50,231
Net loss	(5,908)	(7,005)
Gain on sale of discontinued operations, net of related income taxes of $819,525	1,050,326	-
	1,044,418	(7,005)
Earnings (loss) per share		
Basic	0.05	(0.00)
Diluted	0.05	(0.00)

The assets and liabilities of the discontinued operations as at March 31 are detailed as follows:

	2003	2002
	$	$
Assets		
Cash and cash equivalents	-	1,833,149
Accounts receivable	-	687,986
Prepaid expenses	-	21,604
Current assets from discontinued operations	-	2,542,739
Capital assets	-	368,318
Future income taxes	-	6,040
Long-term assets from discontinued operations	-	374,358
Liabilities		
Accounts payable and accrued liabilities	-	415,498
Deferred revenues	-	51,559
Current liabilities from discontinued operations	-	467,057

14. COMMITMENTS

Future minimum payments under long-term operating leases are as follows:

	$
2004	1,025,780
2005	961,848
2006	518,226
2007	151,454
2008	88,114
Thereafter	330,428

15. FINANCIAL INSTRUMENTS

Fair values

Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are short-term financial instruments whose fair values approximate their carrying values.

The loans to employees included in Other assets are non-interest bearing. As a result, the estimated fair value of those loans, determined by discounting future cash flows using current market interest rates for loans with similar terms, conditions and maturity dates, is lower than their carrying value, amounting to $782,582 as at March 31, 2003. No devaluation of those loans has been recorded as they are expected to be collected in full.

The fair value of long-term debt, which was determined by discounting future cash flows using interest rates which the Company could obtain for loans with similar terms, conditions and maturity dates, approximates its carrying value as at March 31, 2003 of $105,077. As at March 31, 2002, the fair value of long-term debt, which included the convertible debenture, amounted to approximately $1,702,095.

Credit risk

Financial instruments, which potentially subject the Company to credit risk, consist principally of cash and cash equivalents, short-term investments and accounts receivable. The Company's cash is maintained at major financial institutions and its short-term investments consist mainly of commercial paper issued by high credit quality corporations; therefore, the Company considers the risk of non-performance on these instruments to be remote.

Furthermore, the Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible.

Interest rate risks

As at March 31, 2003, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	From 0.75% to 2.65%
Short-term investments	From 2.88% to 6.20%
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt and obligations under capital leases	As described in note 10

16. INCOME TAXES

a) The provision for (recovery of) income taxes is composed of the following:

	2003	2002
	$	$
Current	(151,932)	(61,473)
Future	863,237	90,664
	711,305	29,191

b) The provision for income taxes on continuing operations reflects an effective tax rate which differs from the statutory tax rate for the following reasons:

	2003	2002
	%	%
Combined basic Canadian federal and provincial income tax rate	35.3	36.6
Benefit of net operating losses of joint ventures and a subsidiary not recognized	8.9	17.7
Recognition of losses from previous years	(18.0)	-
Impairment loss on goodwill and other assets	8.1	-
Capital loss from a joint venture	(5.9)	-
Part 1.3 income tax	-	2.3
Non-taxable gains on transfers of software	(17.4)	(57.8)
Other	(0.2)	2.2
	10.8	1.0

c) Future income tax balances are summarized as follows:

	2003	2002
	$	$
Future income tax assets		
Share issue expenses	555,291	827,020
Research and development expenses	763,995	762,717
Non-capital losses of Canadian subsidiaries	280,679	296,149
Non-capital losses of Canadian joint ventures	713,489	547,095
Net operating losses of U.S. subsidiaries	521,701	1,139,301
Capital assets	-	827,587
	2,835,155	4,399,869
Valuation allowance	(1,011,550)	(1,686,395)
Total future income tax assets	1,823,605	2,713,474
Future income tax liabilities		
Tax credits	(1,622,108)	(1,416,099)
Capital assets	(177,949)	-
Other	(431,670)	-
	(2,231,727)	(1,416,099)
Net future income tax (liabilities) assets	(408,122)	1,297,375
Presented as:		
Current liability	(501,292)	(963,863)
Long-term asset	93,170	2,261,238

d) As at March 31, 2003, the Company's Canadian subsidiaries and joint ventures had accumulated non-capital losses for Canadian federal and provincial income tax purposes totalling approximately $3,236,000 which may be carried forward and used to reduce taxable income in future years ending no later than March 31, 2010. A valuation allowance has been provided with respect to $2,872,000 of these losses.

In addition, the Company's US subsidiaries have accumulated net operating losses at the Federal and state levels of approximately US$618,000 (approximately, $958,000) and US$2,854,000 (approximately, $4,421,000) respectively which may be carried forward and used to reduce taxable income in future years ending no later than March 31, 2023. A valuation allowance has been provided with respect to US$1,391,000 (approximately, $2,155,000) of these net operating losses.

17. RELATED PARTY TRANSACTIONS

Details of related party transactions not otherwise disclosed in the financial statements are as follows:

	2003	2002
	$	$
Revenues earned from joint ventures	2,944,765	4,911,435
Accounts receivable from joint ventures	483,667	2,625,167

Balances and transactions with the joint ventures represent the amounts corresponding to the joint venturers' interest therein.

All related party transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration agreed upon by the parties.

18. CHANGES IN NON-CASH WORKING CAPITAL ITEMS AND OTHER INCOME

a) Changes in non-cash working capital items are as follows:

	2003	2002
	$	$
Decrease (increase) in		
Accounts receivable	2,905,258	132,721
Tax credits receivable	(971,263)	(1,837,892)
Prepaid expenses	(34,803)	(70,681)
Increase (decrease) in		
Accounts payable and accrued liabilities	738,756	543,614
Income taxes payable	(499,843)	(68,484)
Deferred revenue	172,826	562,534
	2,310,931	(738,188)

b) Other income consists of the following:

	2003	2002
	$	$
Interest income	1,317,187	2,078,314
Interest expense	(589,136)	(516,267)
Foreign exchange gain (loss) and other	(400,277)	274,063
	327,774	1,836,110

19. SEGMENT INFORMATION

During the fourth quarter of fiscal 2003, the Company repositioned its activities into two reportable segments: E-Business Networks and Software and Services as further described below. The changes over the previous reportable segments include regrouping all e-business networks into one operating segment and isolating corporate expenses distinctively. The presentation of segmented information has been modified to reflect this repositioning. Prior years' figures have been reclassified.

On September 3, 2002, the Company sold its 25.5% net joint venture interest in VCE, which represented the Company's Principal Network segment. VCE derived its revenues from the purchases and resale of electronic components through a network (note 13). Following this transaction, the Company no longer operates in this segment.

The Company operates in the business-to-business (B2B) e-commerce industry and its principal business activities are carried out through two reportable segments:

i) **E-Business Networks:** Represents the Company's business units, mainly The Broker Forum, Carrus Technologies Inc., Global Wine & Spirits, MERX, Power Source On-Line Inc., Telecom Finders and Truck Parts Locator, that operate networks and offer e-commerce services to businesses in specific vertical industries.

ii) **Software and Services:** Consist of the Company's revenues of software licences, services to networks and businesses, and of gains on transfers of software to joint ventures.

Corporate represents the corporate expenses of the Company that are not allocated to segments, mainly general and administrative expenses.

The Company evaluates segments based on earnings from operations. Intersegment services are accounted for at the exchange value, which represents the amount of consideration agreed upon by the segments. The accounting policies used within the segments are applied in the same manner as for the consolidated financial statements.

	2003	2002
	$	$
Revenues		
E-Business Networks	27,441,226	15,845,158
Software and Services	16,525,064	16,229,025
Intersegment		
Software and Services	(6,349,386)	(4,823,462)
	37,616,904	27,250,721
Earnings (loss) from operations		
E-Business Networks	9,712,345	1,472,720
Software and Services	1,476,973	3,441,717
Corporate	(3,940,043)	(4,071,527)
Elimination	(232,399)	194,505
	7,016,876	1,037,415
Acquisition of capital assets and other assets		
E-Business Networks	1,681,311	1,822,820
Software and Services	827,585	2,092,242
Corporate	124,582	310,293
	2,633,478	4,225,355

	2003	2002
	$	$
Segment assets		
E-Business Networks	20,192,848	14,050,259
Software and Services	12,799,105	18,552,412
Corporate	46,784,082	57,858,623
Assets from discontinued operations	-	2,917,097
Eliminations	(1,674,140)	(3,703,017)
	78,101,895	89,675,374

The geographical information is as follows:

	2003		2002	
	Revenues $	Capital assets, intangible assets and goodwill $	Revenues $	Capital assets, intangible assets and goodwill $
Canada	16,315,894	12,409,719	12,340,631	9,355,983
United States	13,919,154	2,600,864	9,900,901	2,759,221
Europe	4,099,818	-	3,142,383	-
Asia and other	3,282,038	-	1,866,806	-
	37,616,904	15,010,583	27,250,721	12,115,204

Revenues are attributed to geographic areas based on the location of the sales organization, which largely reflects the location of the customers to whom sales are made.

20. COMPARATIVE FIGURES

Certain comparative figures for fiscal 2002 have been reclassified in order to comply with the new basis of presentation adopted in the current year.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

Denis Gadbois
Laval, Quebec, Canada
Chairman of the Board and Chief Executive Officer
of the Corporation

Peter Bohn
Munich, Germany
Chairman of the Board and Chief Executive Officer,
ce Consumer Electronic AG

Léon Courville (1)
Bromont, Quebec, Canada
Director of several corporations,
Lead Director of the Corporation

Pierre Donaldson (1)
Morin-Heights, Quebec, Canada
President and Chief Executive Officer, Bioscrypt Inc.

Pierre Duval
Saint-Bruno-de-Montarville, Quebec, Canada
Vice President, Strategic Development of the Corporation

Robert E. Klatell (1)
New Canaan, Connecticut, USA
Executive Vice President, Arrow Electronics, Inc.

Tom Wolf
Brookline, Massachusetts, USA
Senior Vice President, eBusiness, Royal Bank of Canada

(1) Members of Human Resources Committee, Audit Committee and Corporate Governance Committee.

EXECUTIVE OFFICERS

Denis Gadbois
Chairman of the Board and Chief Executive Officer

Alain Miquelon
Vice President, Corporate Development and
Chief Financial Officer

Michel Simard
Chief Operating Officer

Jean Lesage
Vice President, Legal Affairs and Corporate Secretary

Pierre Duval
Vice President, Strategic Development

Denis Marcoux
Vice President, e-Business Software

Christian Brisson
Vice President, e-Business Projects

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2003 ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Mediagrif Interactive Technologies' Annual and Special Meeting of Shareholders will be held on Wednesday, September 24, 2003 at 10:00 a.m. EDT in the Fellini Room of the Complexe Ex-Centris, 3530 Saint-Laurent Boulevard, Montréal, Quebec.

Mediagrif's quarterly and annual reports are available on our Web site at www.mediagrif.com.



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